SECTION 20 -- TERMS AND CONCEPTS

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Summary of Changes

Explains that the Administration has proposed a change in the treatment of advance appropriations (section 20.4(c)).

Provides examples of user fees for goods and services (section 20.7(d)).

Advises that the Administration is reviewing the treatment of user fees and that revised guidance may be issued (section 20.7(d)).

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20.1 What is the purpose of this section?

In this section we define budget terms – such as *budget authority, obligation,* and *outlay* – that you need to know in order to understand the budget process and this circular. We also explain certain of the terms in depth.

20.2 How do I use this section?

- Go to the next section (section 20.3) if you just need a brief definition of a term commonly used in the budget process. That section lists the terms in alphabetical order.
- Go to sections 20.4 - 20.11 if you need a fuller explanation of the terms and concepts listed in the section titles of the Table of Contents above.
- Go to section 20.12 if you need to know about investing fund balances in Treasury securities or other securities.
- Go to section 85, Federal Credit, if you need to know more about the credit terms defined in section 20.3.

20.3 What special terms must I know?

Advance appropriation means appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed. (See section 20.4(c).)

Advance funding means appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed. (See section 20.4(c).)

Agency means a department or establishment of the Government for the purposes of this Circular. (Compare to *bureau.*)

Allowance means a lump-sum included in the budget to represent certain transactions that are expected to increase or decrease budget authority, outlays, or receipts but that are not, for various reasons, reflected in the program details. For example, the budget might include an allowance to show the effect on the budget totals of a proposal that would affect many accounts by relatively small amounts, in order to avoid unnecessary detail in the presentations for the individual accounts. The President doesn't propose that Congress enact an allowance as such, but rather that it modify specific legislative measures as necessary to produce the increases or decreases represented by the allowance.

Appropriated entitlement – See *entitlement authority.*

Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority (see section 20.4).

Baseline means an estimate of the receipts, outlays, and deficit or surplus that would result from continuing current law through the period covered by the budget. (See section 80.)

BEA means the Budget Enforcement Act of 1990, as amended. (See section 15.3.)

Borrowing authority is a type of budget authority that permits obligations and outlays to be financed by borrowing. (See section 20.4.)

Budget means the *Budget of the United States Government,* which sets forth the President's comprehensive financial plan and indicates the President's priorities for the Federal Government. (See section 10.1.)

Budget account means a receipt account or an expenditure account established in the MAX database. Budget accounts are based on the accounts established by the Treasury Department, but budget accounts may encompass two or more Treasury accounts. (See section 71.)

Budget authority (BA) means the authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. (See section 20.4.)

Budgetary resource means an amount available to enter into obligations in a given year. The term comprises new budget authority for that year and unobligated balances of budget authority provided in previous years.

Budget totals means the totals included in the budget for budget authority, outlays, and receipts. Some presentations in the budget distinguish on-budget totals from off-budget totals. On-budget totals reflect the transactions of all Federal Government entities, except those excluded from the budget totals by law. Off-budget totals reflect the transactions of Government entities that laws exclude from the on-budget totals (those of the Social Security trust funds and the Postal Service). The budget presents combined on- and off-budget totals to derive totals for Federal activity, sometimes called the unified budget totals. For example, see the end of the chapter "Federal Programs by Agency and Account" in the *Analytical Perspectives* volume of the most recent budget.

Bureau means the principal subordinate organizational units of an agency.

Cap means the legal limits for each fiscal year on the budget authority or outlays for a category of discretionary spending. (See section 20.9.)

Cash equivalent transaction means a transaction in which the Government makes outlays or receives collections in a form other than cash or the cash does not accurately measure the cost of the transaction. (See section 20.8.)

Collection means money collected by the Government that the budget records as either a receipt, an offsetting collection, or an offsetting receipt. (See section 20.7.)

Contract authority is a type of budget authority that permits obligations to be incurred in advance of either (a) an appropriation of the cash or (b) receiving offsetting collections to make outlays to liquidate the obligations, depending on what is specified in the authorizing legislation. The appropriation of the cash to liquidate obligations of contract authority is not counted as budget authority. (See section 20.4.)

Cost means the cash value of the resources allocated to a particular program. When used in connection with Federal credit programs, the term means the estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. (See section 85.)

Credit program account means an account into which an appropriation for the cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to a financing account for the program. (See section 85.)

Current services estimates – See *baseline.*

Deficit means the amount by which outlays exceed receipts in a fiscal year. It may refer to the on-budget, off-budget, or unified budget deficit. (See *budget totals.)*

Deferral means any executive branch action or inaction that withholds, delays, or effectively precludes the obligation or expenditure of budgetary resources. The President proposes deferrals to Congress by special message. They are not identified separately in the budget. (See section 112.1.)

Deposit fund means an account established to record amounts held temporarily by the Government until ownership is determined (for example, earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (for example, State and local income taxes withheld from Federal employees' salaries and not yet paid to the State or local government). Deposit fund transactions are excluded from the budget totals because the funds are not owned by the Government. Since increases in deposit fund balances reduce Treasury's need to borrow, they are a means of financing a deficit or a surplus.

Direct loan means a disbursement of funds by the Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. The term also includes certain other kinds of transactions that extend credit. (See section 85.) (Compare to *loan guarantee*.)

Direct spending – See *mandatory spending.*

Discretionary spending means budgetary resources (except those provided to fund mandatory spending programs) provided in appropriations acts. (See section 20.9.) (Compare to *mandatory spending*.)

Emergency appropriation means an appropriation that the President and the Congress have designated as an emergency requirement under the BEA. (See section 20.9.)

Entitlement authority means the authority to make payments (including loans and grants), the budget authority for which is not provided in advance by appropriations acts, to any person or government if, under the provisions of the law containing that authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by that law. Examples of entitlement authority include benefit payments for Social Security, medicare, and unemployment insurance. For the purposes of the congressional budget process, the Congressional Budget Act expressly includes the food stamp program under the definition of entitlement authority, even though the budget authority for this program is provided in advance by appropriations acts. The Budget Enforcement Act includes entitlement authority in its definition of *mandatory spending* (see below and section 20.9). The BEA also defines certain programs as entitlement authority, even though the budget authority for those programs is provided by appropriations acts. The BEA refers to these as *mandatory appropriations* or *appropriated entitlements* and defines them by referring to a list in the conference report on the Balanced Budget Act of 1997, which included the most recent amendments to the BEA. For example, veterans compensation is listed as an appropriated entitlement.

Expenditure transfer – See *transfers.*

Federal funds group refers to the moneys collected and spent by the Government through accounts other than those designated as trust funds. The Federal funds group includes general, special, public enterprise, and intragovernmental funds. (See section 20.11.) (Compare to *trust funds*.)

Financing account means the account that collects the cost payments from a credit program account and includes all cash flows to and from the Government resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991. At least one financing account is associated with each credit program account. For programs with direct and guaranteed loans, there are separate financing accounts for direct loans and guaranteed loans. The transactions of the financing accounts, which are a *means of financing*, are not included in the budget totals. (See section 85.) (Compare to *liquidating account*.)

Fiscal year means the Government's accounting period. It begins on October 1 and ends on September 30, and is designated by the calendar year in which it ends.

Forward funding means appropriations of budget authority that become available for obligation in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year. (See section 20.4(c).)

Full-time equivalent (FTE) employment is the basic measure of the levels of employment used in the budget. It is the total number of hours worked (or to be worked) divided by the number of compensable hours applicable to each fiscal year. (See section 32.1.)

Functional classification means the array of budget authority, outlays, and other budget data according to the major purpose served – for example, agriculture, national defense, and transportation. (See section 79.3.)

General fund means the accounts for receipts not earmarked by law for a specific purpose, the proceeds of general borrowing, and the expenditure of these moneys.

Liquidating account means an account for a credit program that includes all cash flows to and from the Government resulting from direct loan obligations and loan guarantee commitments made prior to October 1, 1991. Unlike financing accounts, these accounts are included in the budget totals. (See section 85.) (Compare to *financing account*.)

Loan guarantee means any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. The term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. (See section 85.) (Compare to *direct loan*.)

Mandatory appropriation – See *entitlement authority.*

Mandatory spending means spending controlled by laws other than appropriation acts (including spending for entitlement programs) and spending for the food stamp program. Although the BEA uses the term *direct spending* to mean this, *mandatory spending* is commonly used instead. (See section 20.9.) (Compare to *discretionary spending*.)

Means of financing means borrowing, the change in cash balances, and certain other transactions that are used to finance a deficit or a surplus. By definition, the means of financing are not treated as receipts or outlays. (See section 20.7.)

Intragovernmental fund – See *revolving fund.*

Non-expenditure transfer — See *transfer*.

Obligated balance means the cumulative amount of budget authority that has been obligated but not yet outlayed. (See section 20.4(g).)

Obligation means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. (See section 20.5.)

Off-budget — See *budget totals*.

Offsetting collections mean collections that are deducted from gross budget authority and outlays, rather than added to receipts, and, by law, are credited directly to expenditure accounts. Usually, they are authorized to be spent for the purposes of the account without further annual action by Congress. They result from business-type or market-oriented activities with the public and other Government accounts. The authority to spend offsetting collections is a form of budget authority. (See sections 20.4(b) and 20.7.) (Compare to *receipts* and *offsetting receipts*.)

Offsetting receipts mean collections that are deducted from gross budget authority and outlays, rather than added to receipts, and that are not authorized to be credited to expenditure accounts. Instead of being credited to expenditure accounts, they are credited to offsetting receipt accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they result from business-type or market-oriented activities with the public and other Government accounts. (Compare to *receipts* and *offsetting collections.*)

On-budget — See *budget totals*.

Outlay means a payment to liquidate an obligation (other than the repayment of debt principal). Outlays are the measure of Government spending. As required by law, the budget presents some outlays as "on-budget" and some as "off-budget" (see *budget totals).* Total outlays for the Federal Government include both on-budget and off-budget outlays. Government-wide outlay totals are stated net of refunds, offsetting collections, and offsetting receipts. Function, subfunction, and agency outlay totals are stated net of related refunds, offsetting collections, and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency but only offset Government-wide outlay totals.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts. Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of the public debt. (See section 20.6.)

Outyear means any fiscal year beyond the budget year. The database includes estimates of budget authority, outlays, and receipts for nine years beyond the budget year. However, most published budget tables present no more than four years beyond the budget year.

Pay-as-you-go (PAYGO) means the requirement in the BEA for a sequestration of mandatory accounts if the estimated combined result of legislation affecting mandatory spending and receipts is a net cost for a fiscal year. (See section 20.9.)

Public enterprise fund – See *revolving fund.*

Reappropriation means an extension in law of the availability of unobligated balances of budget authority that have expired or would otherwise expire. A reappropriation counts as budget authority in the year in which the balance becomes newly available for obligation. (See section 20.4(h).)

Receipts mean collections that result from the Government's exercise of its sovereign power to tax or otherwise compel payment, and gifts of money to the Government. They are compared to outlays in calculating a surplus or deficit. (See section 20.7.) (Compare to *offsetting collections* and *offsetting receipts*.)

Refund means the return of excess payments to or by the Government. (See section 20.10.)

Reimbursable obligation means an obligation financed by offsetting collections credited to an expenditure account in payment for goods and services provided by that account. (See section 20.5.)

Rescission means a legislative action that cancels new budget authority or the availability of unobligated balances of budget authority prior to the time the authority would otherwise have expired. (See section 20.4(i).)

Revolving fund means a fund that conducts continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. There are two types of revolving funds: Public enterprise funds, which conduct business-like operations mainly with the public, and intragovernmental revolving funds, which conduct business-like operations mainly within and between Government agencies. (See section 20.12.)

Scorekeeping means measuring the budget effects of legislation, generally in terms of budget authority, receipts, and outlays for purposes of the BEA. (See section 20.9.)

Sequestration means the cancellation of budgetary resources provided by discretionary appropriations or mandatory spending legislation, following procedures prescribed in the BEA. A sequestration may occur in response to an appropriation that causes discretionary spending to exceed the discretionary spending caps set by the BEA or in response to net costs resulting from the combined result of legislation affecting mandatory spending or receipts (referred to as a "pay-as-you-go" sequestration). (See section 20.9.)

Special fund means a Federal fund account for receipts and/or offsetting receipts earmarked for specific purposes and an account for the expenditure of these receipts. (See section 20.11.)

Spending authority from offsetting collections is a type of budget authority that permits obligations and outlays to be financed by offsetting collections (see section 20.4.)

Subsidy means the same as cost when it is used in connection with Federal credit programs. (See section 85.)

Surplus means the amount by which receipts exceed outlays in a fiscal year. It may refer to the on-budget, off-budget, or unified budget surplus. (See *budget totals.)*

Supplemental appropriation means an appropriation enacted subsequent to a regular annual appropriations act, when the need for funds is too urgent to be postponed until the next regular annual appropriations act.

Transfer means to move budgetary resources from one budget account to another. Depending on the circumstances, the budget may record a transfer as an expenditure transfer, which means a transfer that involves an outlay, or as a nonexpenditure transfer, which means a transfer that doesn't involve an outlay. (See section 20.4(j).)

Transfer in the estimates means a proposal to stop funding an activity through one budget account and begin funding it through another account. A transfer in the estimates doesn't involve a transfer of budgetary resources between the accounts. (See section 20.4(k).)

Trust fund means a type of account, designated by law as a trust fund, for receipts and/or offsetting receipts earmarked for specific purposes and for the expenditure of these receipts. Some revolving funds are designated as trust funds, and these are called *trust revolving funds.* (See section 20.11.) (Compare to *special funds* and *revolving funds.*)

Trust funds group refers to the moneys collected and spent by the Government through trust fund accounts. (See section 20.11.) (Compare to *Federal funds group*.)

Unobligated balance means the cumulative amount of budget authority that is not obligated and that remains available for obligation under law.

User charges are fees assessed for the provision of Government services and for the sale or use of Government goods or resources. The payers of the user charge must be limited in the authorizing legislation to those receiving special benefits from, or subject to regulation by, the program or activity beyond the benefits received by the general public or broad segments of the public (such as those who pay income taxes or customs duties). User charges are defined and the policy regarding user charges is established in OMB Circular A-25, "User Charges" (July 8, 1993). The term encompasses proceeds from the sale or use of government goods and services, including the sale of natural resources (such as timber, oil, and minerals) and proceeds from asset sales (such as property, plant, and equipment). User fees (which are defined below) are a subset of user charges. (See section 31.10.)

User fees are a subset of user charges (as defined above) that are authorized to be utilized solely to support the program or activity for which they were levied. User fees are more limited in coverage than user charges and must be earmarked for the activity they finance by crediting them to special or trust receipts accounts (as receipts or offsetting receipts) or to expenditure accounts (as offsetting collections). User charges that are credited to the general fund of the Treasury are not user fees by definition, because they are not utilized solely to support the program or activity for which they were levied. (See section 20.7.)

20.4 What do I need to know about budget authority?

(a) *Definition of budget authority.*

Budget authority (BA) means the authority provided by law to incur financial obligations that will result in outlays. This definition is the same as the one contained in section 3(2) of the Congressional Budget and Impoundment Control Act of 1974, which Congress uses in the congressional budget process. You violate the law if you enter into contracts, issue purchase orders, hire employees, or otherwise obligate the Government to make a payment before a law has provided budget authority for that purpose.

(b) *Forms of budget authority.*

Most laws provide budget authority in the form of appropriations, but some laws provide budget authority in the form of contract authority, authority to borrow, or spending authority from offsetting collections. The following table summarizes the characteristics of each form of budget authority, and the text following the table discusses them in more depth.

FORMS OF BUDGET AUTHORITY

Form of budget authority	Summary of Characteristics
Appropriation	• Authorizes obligations and outlays using general funds, special funds, or trust funds. • Provided in appropriations acts and other laws. • Includes the authority to use the sale of loan assets with recourse. • May authorize the use of cash-equivalent payments. • Not all appropriations provide budget authority.
Contract authority	• Authorizes obligations but not outlays. • Typically provided in authorizing laws and requires a separate appropriation of liquidating cash in appropriations acts. • Occasionally authorizes obligations in advance of receiving offsetting collections.

Form of budget authority	Summary of Characteristics
Authority to borrow	• Authorizes obligations and outlays to be financed by borrowing, usually from Treasury. • Typically provided in laws that authorize business-like operations and require the borrowing to be repaid, with interest, out of the business proceeds.
Spending authority from offsetting collections.	• Authorizes obligations and outlays using offsetting collections. • Typically provided in authorizing laws. • Appropriations acts limit obligations in some cases. • Obligations may be incurred against accounts receivable and unpaid, unfilled orders from other Federal accounts, but not from the public.

(1) *Appropriations,* as a type of budget authority, permit you to incur obligations and make outlays (payments). (Not all appropriations provide budget authority, as explained below.) Congress enacts appropriations in annual appropriations acts and other laws. An appropriation may make funds available from the general fund, special funds, or trust funds, or it may authorize the spending of offsetting collections, which are credited to expenditure accounts (including revolving funds). Because of the special nature of spending authority from offsetting collections, we discuss it below as a separate form of budget authority.

We treat the authority to use the proceeds from the sale of financial assets *with recourse* as an appropriation. For example, the authority to use the proceeds from the sale of a direct loan, where the Federal government guarantees repayment of principal and interest in the event of default, is an appropriation. (The proceeds are not offsetting collections.)

A law that authorizes you to incur obligations and liquidate them through cash-equivalent payments (see section 20.8) constitutes an appropriation of budget authority.

Some appropriations don't provide budget authority, because they don't provide authority to incur obligations. Amounts appropriated to liquidate contract authority, to liquidate deficiencies, or to repay debt provide the cash needed to liquidate obligations already incurred. Because they do not authorize you to incur new obligations, they are not appropriations of budget authority, and you do not record them as such. Although there are many variations in the language providing such appropriations, usually the appropriation heading for such appropriations includes a subheading such as "(Liquidation of Contract Authority)," and the language reads something like, "for payment of obligations...."

(2) *Contract authority* permits you to incur obligations in advance of an appropriation of the cash to make outlays to liquidate the obligations. Typically, Congress provides contract authority in an authorizing law, and requires you to seek a subsequent appropriation of the liquidating cash. In a few cases, a law provides contract authority in order to allow you to incur obligations in anticipation of offsetting collections. When you receive the collections, you use them to liquidate the obligations. Congress provides contract authority as a matter of custom for some programs, such

as highway programs and airports and airways programs, but seldom uses this form of budget authority otherwise.

(3) *Authority to borrow* permits you to incur obligations and authorizes you to borrow funds to liquidate the obligations. Usually, the law authorizing the borrowing specifies that you must borrow from the Treasury, but in a few cases it authorizes borrowing directly from the public. Laws usually authorize borrowing for business-like operations, such as the Tennessee Valley Authority, which generates and sells electrical power. Such laws require the program to repay the borrowing, with interest, out of business proceeds.

(4) *Spending authority from offsetting collections* permits you to incur obligations and to make outlays using offsetting collections.

You record spending authority from offsetting collections and the offsetting collections in the program and financing schedule of an account (see sections 82.3 and 82.6). In the simplest case, you record gross budget authority (spending authority from offsetting collections) (entries 6800 and 6900) equal to the cash collections for the year and record the cash collections (entries 8800 - 8845 and 8896) as an offset to the budget authority. Net budget authority equals zero in such cases.

In other cases, you must adjust spending authority from cash collections to yield the amount available as budget authority. We describe these adjustments in section 82.3 (entries 6810 - 6885 and 6910 - 6985). We discuss two of them – changes in uncollected customer payments from Federal sources and amounts precluded from obligation – in more detail below, because questions about them come up so often.

Changes in uncollected customer payments from Federal sources. You need to adjust the spending authority from cash collections if the account is authorized to perform reimbursable work for another Federal account, and if you incur obligations against receivables from Federal sources and unfilled customer orders from Federal sources without an advance – that is, before receiving the cash. The law allows you to incur such obligations as long as the paying account is a Federal account and an obligation is recorded against resources available to the paying account. (You can't incur obligations against collections you haven't actually received from *non-Federal* sources, unless a law specifically allows it.) In these cases, you must add any net increase in such amounts for the year to the spending authority from cash collections, or subtract any net decrease in such amounts for the year from the spending authority from cash collections, to yield the gross budget authority available to the account from offsetting collections. You also add the same amount to offsetting collections (cash) to yield the amount of the offset applied to gross budget authority in calculating net budget authority (see section 82.6).

Amounts precluded from obligation. If a law precludes you from using some of the collections to incur obligations, you need to reduce the spending authority from cash collections by the precluded amount to determine the amount of budget authority that is available. For example, in some cases Congress enacts obligation limitations in appropriations acts that limit the authority to spend offsetting collections provided in authorizing laws. In other cases, the law authorizing the collection may itself limit the amount of obligations you may incur, such as through a benefit formula. The budget presents the unavailable amounts in an unavailable collections schedule (see section 86.6). You record budget authority in the year when the collections become available for obligation under the law. As a general rule, you must record obligations first against budget authority from collections in that year and against budget authority from previously unavailable balances only to the extent that budget authority from collections in that year are not adequate to cover obligations. You always deduct the full amount of offsetting collections (cash) in the year you collect them, even where a law precludes you from obligating all or a portion of the collections in that year. For this reason, an account can have negative net budget authority.

The following illustrates the effect of offsetting collections on budget authority, gross and net, for an account as it will appear in the Budget Appendix:

Appropriation	75
Spending authority from offsetting collections:	
Offsetting collections (cash)	27
Change in uncollected customer payments from Federal sources (unexpired)	2
Portion not available for obligation (limitation on obligations)	-4
Spending authority from offsetting collections (total)	25
Total new budget authority (gross)	100
Offsetting collections (cash) credited to the account in that year	-30
Change in uncollected customer payments from Federal sources (unexpired)	-2
Portion of offsetting collections (cash) credited to expired accounts	3
Budget authority (net)	71

The effect of offsetting collections on outlays is simpler. Only cash collections (unexpired and expired) are subtracted from gross outlays to yield net outlays.

The Congressional Budget Act defines offsetting receipts and collections as negative budget authority. In the congressional budget process, this subjects proposed provisions of law that affect offsetting receipts and collections to the rules that pertain to budget authority.

As explained earlier, we treat the authority to use the proceeds from the sale of financial assets (for example, Federal loan assets) with recourse as a form of appropriation, but we don't count the proceeds as offsetting collections (see section 20.4(b)(1)).

(c) *Determining the period of availability of budget authority.*

When a law appropriates budget authority, it sets the period during which you can use it to incur obligations. We call this the period of availability.

1. *One-year budget authority.* This term refers to budget authority that is available for obligation during only one fiscal year. One year is the default period of availability for annual appropriations acts, because a general provision in each of the acts specifies that the amounts provided in the act are available for one year, unless the act expressly provides otherwise. Even if there were not such a provision, the preamble of an appropriations act says that it is for a specific fiscal year. For example, the following language in an appropriation act would provide one-year budget authority: "For expenses of the Office of the Secretary, $1,500,000."

2. *Multi-year budget authority.* The language for a specific appropriation of budget authority in an appropriations act may make all or some portion of the amount available for obligation for a specified period of time in excess of one fiscal year. Usually, the period covers two or more whole fiscal years, but it may cover a period that includes part of a fiscal year. We refer to such budget authority as multi-year budget authority or, specifically, as two-year budget authority, three-year budget authority, etc. For example, if the following language appeared in an appropriations act for 2001, it would provide two-year budget authority: "For research and development, $1,500,000, to remain available until September 30, 2002."

3. *No-year budget authority.* The language for a specific appropriation of budget authority may make all or some portion of the amount available "until expended." That means you can incur obligations against it indefinitely. We refer to this as no-year budget authority. For example, the following language provides no-year budget authority: "For construction, improvements, repair or replacement of physical facilities, $1,500,000, to remain available until expended." Authorizing laws that make appropriations seldom limit the period of availability, so most budget authority provided in authorizing laws is no-year budget authority.

Under a general law, annual and multi-year budget authority *expires* at the end of its period of availability. That means you may not incur new obligations against it. However, you may make adjustments to obligations that were made before the budget authority expired. For example, you could make an upward adjustment in previously recorded obligations for transportation charges, under an agreement to pay actual transportation charges, if they turned out to be greater than originally estimated. You may use expired authority to make adjustments to obligations or disbursements only during a five-year period, beginning with the first expired year. At the end of the fifth expired year, the authority is *canceled*, which means that you may not use it for *any* purpose. If you have a program with a legitimate need to disburse funds for more than five years after the authority expires – for example, to make disbursements over many years under direct loan contracts, to pay termination costs under some contracts, or to make payments under a lease – and your OMB representative approves, you may include specific waivers of these requirements in the pertinent appropriation language (see section 96.5). The OMB Circular No. A-34 guidance on SF 133s provides a fuller explanation of expired and canceled budget authority.

Usually an appropriations act makes budget authority available beginning on October 1 of the fiscal year for which the appropriation act is passed. However, there are three types of appropriations where that is not the case. They are described below, and the budget *Appendix* lists the accounts in the budget with such appropriations under the heading, "Advance Appropriations, Advance Funding, and Forward Funding."

- *Advance appropriation* means appropriations of new budget authority that become available one or more fiscal years beyond the fiscal year for which the appropriation act was passed. For example, if the following language appeared in an appropriations act for fiscal year 2002, it would provide an advance appropriation for fiscal year 2003: "For operating expenses, $1,500,000, to become available on October 1, 2002." Under current BEA scoring guidelines, new budget authority for advance appropriations is scored in the fiscal year in which the funds become available for obligation. In this example, you would record the budget authority in 2003. The Administration has proposed a change to the scorekeeping guideline that would require the budget authority to be scored in the fiscal year for which the appropriations bill is enacted. If Congress agrees to the change, revised guidance will be issue for the 2003 budget. (See section 31.1 for the Administration's policy regarding requests for advance appropriations.)

- *Advance funding* means appropriations of budget authority provided in an appropriations act to be used, if necessary, to cover obligations incurred late in the fiscal year for benefit payments in excess of the amount specifically appropriated in the act for that year, where the budget authority is charged to the appropriation for the program for the fiscal year following the fiscal year for which the appropriations act is passed. When such budget authority is used, the budget records an increase in the budget authority for the fiscal year in which it is used and a reduction in the budget authority for the following fiscal year. The following language, when added to regular appropriation language, provides advance funding: "...together with such sums as may be necessary to be charged to the subsequent year appropriation for the payment of compensation and other benefits for any period subsequent to August 15 of the current year."

- *Forward funding* means appropriations of budget authority that are made for obligation in the last quarter of the fiscal year for the financing of ongoing grant programs during the next fiscal year. The budget records the budget authority in the fiscal year in which is it appropriated. The following language, if it appeared in an appropriation act for 2002, would provide forward funding, which would be recorded in fiscal year 2002: "... of which $2,000,000,000 shall become available on July 1, 2002 and shall remain available through September 30, 2003 for academic year 2002-2003."

(d) *Determining the amount of budget authority.*

If a law provides budget authority in a specific amount, we refer to it as *definite* budget authority. We consider the budget authority definite even if the language reads "not to exceed" a specified amount. You record the specified amount as budget authority. For example, this language would provided definite budget authority of $100 million: "For salaries and expenses, not to exceed $100,000,000."

If a law doesn't specify an amount of budget authority, but, instead, specifies a variable factor that determines the amount, we refer to the budget authority as *indefinite.* If the law provides "such sums as may be necessary" to cover the obligations resulting from an entitlement (such as unemployment insurance), record budget authority in the past year equal to the amount obligated and in other years equal to your estimate of obligations. If a law authorizes you to obligate all of the receipts from a specified source, record budget authority equal to the amount of receipts you collected in the past year and equal to amounts you estimate you will collect in other years. Record budget authority for the authority to use the proceeds from the sale of financial assets with recourse the same way, even though the proceeds aren't recorded as collections.

If a law appropriates a specific amount to be derived from receipts, it limits the amount of budget authority actually provided to the lower of the actual receipts or the amount specified. For example, if the language read, "...and, in addition, $75,000,000 of the amounts collected under section 101 of the Authorization Act of 1995," you could obligate only the amount actually collected, up to $75,000,000. Similarly, if a law appropriates an amount to be derived from a special or trust fund, it limits the amount of budget authority actually provided to the lower of the amount of the balances in the fund or the specified amount. For example, language that reads, "For necessary expenses, $1,500,000, to be derived from the Land Restoration Trust Fund," allows you to obligate only the amount actually in the fund and no more than $1,500,000. If a law authorizes you to obligate all of the receipts credited to a fund, record budget authority equal to the amount of receipts collected into the fund in the past year and equal to amounts you estimate you will collect in other years.

Some laws that provide authority to borrow limit the amount of debt that may be outstanding at any one time. This may limit your ability to incur obligations indirectly, because you must consider your ability to borrow the cash needed to liquidate the obligations that will become due, but it doesn't determine the level of obligations directly. In such cases, treat the budget authority as indefinite and record the amount that you obligated in the past year or estimate you will obligate in other years. Under the BEA scorekeeping guidelines, OMB will score legislation that imposes or changes a limit of this type only to the extent that we estimate that it will alter the amount of obligations that will be incurred (see Appendix A, scorekeeping guideline no. 16).

Most budget authority provided in appropriations acts is definite, and most budget authority provided in other laws is indefinite. Note: Until this year, we required definite and indefinite budget authority to be recorded on separate lines in the program and financing schedule. This requirement has been dropped (see section 82.3).

(e) *Discretionary or mandatory budget authority.*

The Budget Enforcement Act of 1990 (BEA) requires us to classify budget authority (and outlays) as either discretionary spending or mandatory spending, and applies a different set of rules to each type of spending. We explain this further in section 20.9.

(f) *Unobligated balance of budget authority.*

An unobligated balance consists of the cumulative amounts of budget authority that are not obligated and that remain available for obligation under law. Unobligated balances must meet *all* of the following conditions:

- They are balances of budget authority that has never been obligated or that has been obligated and deobligated.

- They are balances of budget authority that has not expired.

- You can quantify the amount by subtracting the obligations to date from the amount of budget authority provided. That is, the law providing the budget authority must have specified a definite amount or an indefinite amount based on the appropriation of collections from a specified source. You cannot quantify "such sums as may be necessary."

You shouldn't count unavailable offsetting receipts or collections as budget authority and, therefore, you shouldn't have any unobligated balances as a result of them. Report them in a schedule of unavailable collections (see section 86.6).

In budget schedules, such as the program and financing schedule, the unobligated balance at the end of a year includes available, unobligated balances of budget authority provided in that and previous years. The unobligated balance at the start of a year is equal to the unobligated balance at the end of the previous year.

The balances you report for the start and end of the past year must be consistent with the amounts reported in the Treasury Department's Annual Report. (See section 82.18.)

(g) *Obligated balance.*

An obligated balance consists of unpaid obligations net of uncollected customer payments from Federal sources. These uncollected payments consist of any –

- Accounts receivable from Federal sources, and
- Unpaid, unfilled orders from Federal sources.

Accounts receivable and unpaid, unfilled orders must represent a valid obligation against budgetary resources of the ordering Federal account (see section 20.7). Exclude orders for which subsequent cash collections will be credited to a receipt account rather than to the expenditure account. Also, in computing the obligated balances don't deduct receivables from the public, loans and other long-term receivables, amounts due at some future date under credit sales, and deferred charges from unpaid obligations.

Unpaid obligations and uncollected customer payments from Federal sources are included in the obligated balances and are not separately identified (see section 82.4). The balances you report for the start and end of the past year must be consistent with the amounts reported in the Treasury Department's Annual Report (see section 82.18).

(h) *Reappropriation.*

Reappropriation means an extension in law of the availability of budgetary resources (budget authority or unobligated balances) that have expired or otherwise would expire except for the extension. A reappropriation counts as budget authority in the year in which the reappropriated amount becomes newly available. The law may reappropriate a specific amount or all of the unobligated balance of a previous appropriation. For example, if an appropriation act for fiscal year 2001 provided budget authority with only one-year availability, the following language in a fiscal year 2002 appropriation act would result in a reappropriation: "Of the unobligated balances remaining available from appropriations made under this heading for fiscal year 2001, $10,000,000 shall remain available for fiscal year 2002 for the same purposes as other sums provided under this heading." In this case, you would record all of the unobligated fiscal year 2001 amounts as expiring, including the $10,000,000, and record $10,000,000 as a reappropriation in fiscal year 2002. This would count as $10,000,000 in new budget authority in 2002.

(i) *Rescission.*

Rescission means a cancellation in law of budgetary resources (budget authority or unobligated balances). You record a rescission as negative budget authority in the year it takes effect, regardless of whether it cancels budget authority or unobligated balances. A law that precludes the obligation of budgetary resources in one year and authorizes their obligation in a subsequent year in which they were not available for obligation, makes a rescission and a reappropriation. In such cases, you record a rescission in the first year and a reappropriation in the second. Include enacted rescissions in the regular program and financing and other regular schedules. Proposed rescissions require separate budget schedules (see section 82.9).

Amounts rescinded from special fund accounts revert either to unavailable collections of the special fund or to the general fund of the Treasury, depending on the circumstances and the specific requirements of the law making the rescission. As a general rule, amounts rescinded from an annually appropriated special fund account revert to unavailable collections, which may be appropriated subsequently. However, if the rescinding law indicates that the rescinded amounts are *permanently* canceled, the amounts revert to the general fund and are not available for subsequent appropriation. A rescission of permanently appropriated special fund receipts reverts to the general fund of the Treasury, and the receipts are no longer available for appropriation as special fund receipts.

(j) *Transfer.*

(1) *Definition.* Transfer means to reduce budgetary resources (budget authority and unobligated balances) in one account and increase them in another, by the same amount.

(2) *Authority.* You can't make a transfer unless a law authorizes it. The law may specify a particular transfer or provide general transfer authority within specified limits.

(3) *Expenditure transfer or nonexpenditure transfer.* You record a transfer as an *expenditure* transfer, one that involves an outlay, or as a *nonexpenditure* transfer, one that doesn't involve an outlay. Which you record usually depends on the purpose of the transfer, as explained in the following table.

If the transfer...	**Record as...**
(1) purchases goods or services for the transferring account (for example, a rental payment to GSA's Federal Buildings Fund) or otherwise benefits the transferring account...	an expenditure transfer.
(2) shifts budgetary resources between Federal funds (general, special, and revolving fund accounts) and trust funds (trust fund and trust revolving fund accounts), regardless of the purpose...	an expenditure transfer.
(3) reduces budgetary resources available for the activities of the transferring account and increases them for the activities of the receiving account (for example, a transfer of unobligated balances from the construction account to the salaries and expense account to fund pay raises) other than between Federal and trust funds...	a nonexpenditure transfer.
(4) corresponds to a transfer of an activity from one account to another (such as in a reorganization)...	a nonexpenditure transfer.

(4) *Recording transfers in the budget:*

- *Expenditure transfers.* Record an expenditure transfer as an obligation (against new budget authority or unobligated balances) and an outlay in the transferring account and as an offsetting collection or offsetting receipt in the receiving account (see section 20.7). If the receiving account is a general fund appropriation account or a revolving fund account, credit the amount as an offsetting collection to the appropriation or revolving fund account. If the receiving account is a special fund or trust fund account, credit the amount as an offsetting receipt to a receipt account of the fund.

- *Nonexpenditure transfers.* Don't record an obligation or an outlay or an offsetting collection or offsetting receipt. Record nonexpenditure transfers as either a reduction in budget authority or unobligated balances in the transferring account and as either an increase in budgetary authority or unobligated balances in the gaining account. Whether you record the reduction and increase as a change in budget authority or unobligated balances, depends on the circumstances, as described in the following table.

If you transfer...	And the transfer...	Record...
(1) unobligated balances	results from a transfer specified in law that changes the purpose for which the funds will be used	a reduction of budget authority in the transferring account and an increase in budget authority in the gaining account.
(2) unobligated balances	• results from general transfer authority, or • corresponds to a transfer of an activity such that the purpose does not change	a reduction of unobligated balances in the transferring account and an increase in unobligated balances in the gaining account.
(3) budget authority in the year it becomes available	is for any purpose	a reduction of budget authority in the transferring account and an increase in budget authority in the gaining account.

(k) *Transfer in the estimates.*

A transfer in the estimates means the budget proposes to stop funding an activity under one budget account and start funding the activity under another budget account, beginning in the budget year. This doesn't involve a transfer of budgetary resources, like that discussed in subsection (j). You simply stop showing budget authority in the one account and start showing it in the other. A transfer in the estimates usually reflects a proposal to do one of the following in the budget year:

- Transfer the funding of an activity from one account to another.
- Consolidate funding for related activities from two or more accounts into a single account.
- Disaggregate the funding for an activity from one account between two or more accounts.

You must indicate a transfer in the estimates by footnoting the program and financing schedules of the transferring and receiving accounts (see section 82.12).

(l) *Allocation.*

Allocation means a delegation, authorized in law, by one agency of its authority to obligate budget authority and outlay funds to another agency. When an agency makes such a delegation, the Treasury Department establishes a subsidiary account called a "transfer appropriation account," and the receiving agency may obligate up to the amount included in the account. The budget doesn't show the transfer appropriation account separately. The budget schedules for the parent account include the obligations by the other agency against the subsidiary account without separate identification, except in the object class schedule (see section 83.17). Allocations are appropriate where the receiving agency is acting as the agent for the allocating agency. Where the receiving account is simply providing goods or services on a reimbursable basis, such as transactions under the Economy Act, record an expenditure transfer (see section 20.4(j)). See OMB Circular No. A-34 for a further explanation of allocations.

20.5 What do I need to know about obligations?

Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, award a contract, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation. The budget presents the obligations you incurred in the past year and expect to incur in other years in the program activity section of the program and financing schedule and the object classification schedule for the account. Obligations reflect the level of program activity. Of course, the account must have budgetary resources sufficient to cover the total of such obligations. The obligations you include in the budget must conform with applicable provisions of law, and you must be able to support the amounts reported by the documentary evidence required by 31 U.S.C. 1501. For some purposes, agencies need to track commitments at a pre-obligations stage. Don't record such commitments as obligations. Transfers within the same account do not constitute obligations of the account. See OMB Circular No. A-34 for more information on this aspect of obligations.

Reimbursable obligations mean those financed by spending authority from offsetting collections in payment for goods and services provided by the account. Reimbursable obligations also include those for jointly-funded projects to carry out grant programs or other projects of common interest that are supported by more than one Federal agency. The following provides more specific guidance on reimbursable and nonreimbursable obligations. Also, see section 83.5 of this Circular.

More specifically, reimbursable obligations include:

- Obligations financed by offsetting collections from Federal or non-Federal sources for goods and services; and

- All revolving fund obligations, regardless of how they are financed.

They don't include:

- Obligations of credit program and liquidating accounts;
- Obligations financed by budget authority from sources other than offsetting collections;
- Obligations financed by spending authority from loan principal repayments or proceeds of asset sales;
- Obligations financed by certain offsetting collections including:
  - Interest on Federal securities;
  - Interest on uninvested funds;
  - Offsetting governmental collections (see section 20.7); and
  - Expenditure transfers from Federal accounts that are not payments for goods and services, such as legislated transfers of budget authority between Federal and trust fund accounts.

20.6 What do I need to know about outlays?

Outlay means a payment to liquidate an obligation (other than the repayment of debt principal). Outlays are the measure of Government spending. As required by law, the budget presents some outlays as "on-budget" and some as "off-budget." Total outlays for the Federal Government include both on-budget and off-budget outlays. Government-wide outlay totals are stated net of refunds, offsetting collections, and offsetting receipts. Function, subfunction, and agency outlay totals are stated net of related refunds, offsetting collections, and offsetting receipts for most budget presentations. (Offsetting receipts from a few sources do not offset any specific function, subfunction, or agency.) Outlay totals for accounts with offsetting collections are stated both gross and net of the offsetting collections credited to the account. However, the outlay totals for special and trust funds with offsetting receipts are not stated net of the offsetting receipts.

The Government usually makes payments in the form of cash (currency, checks, or electronic fund transfers), and you normally record outlays equal to the disbursement at the time of the disbursement. Normally the amount of cash disbursed appropriately measures the value of the transaction. In other cases, however, the cash disbursed does not accurately measure the cost of the transactions. In these cases, we require you to record the cash-equivalent value of the transactions (see section 20.8).

Not every disbursement is an outlay, because not every disbursement liquidates an obligation. You don't record outlays for the following:

- Repayment of debt principal, because we treat borrowing and the repayment of debt principal as a means of financing.
- Disbursements to the public by Federal credit programs for direct loan obligations and loan guarantee commitments made in fiscal year 1992 or later (and those made prior to that year if they have been modified), because we treat the cash flows to and from the Government for credit programs as a means of financing. We record outlays equal to the subsidy cost of direct loans and

loan guarantees when the underlying direct or guaranteed loans are disbursed. Disbursements from liquidating accounts for direct loan obligations and loan guarantee commitments made prior to fiscal year 1992 are treated as outlays (see section 85).

- Disbursements from deposit funds, because these funds are on deposit with the Government but are not owned by the Government and are therefore excluded from the budget (see section 20.7).

- Refunds of receipts that result from overpayments, because they are recorded as reductions of receipts, rather than as outlays (see section 20.10).

The timing for recording outlays for interest payments varies. Treasury records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when it pays the cash. However, most Treasury debt securities held by Government accounts are in the Government account series. Treasury normally records the interest payments on these securities when it pays the cash. (And you normally record an offsetting collection or receipt on a cash basis.) Two trust funds in the Department of Defense, the Military retirement trust fund and the Education benefits trust fund, routinely have relatively large differences between purchase price and par. For these funds, we've instructed the Department to record the holdings of debt at par but record the differences between purchase price and par as adjustments to the assets of the funds that are amortized over the life of the security. The Department records interest as the amortization occurs. We discuss the budget treatment of investment transactions in section 20.12.

Outlays during a fiscal year may liquidate obligations incurred in the same year or in prior years. Obligations, in turn, may be incurred against budget authority provided in the same year or against unobligated balances of budget authority provided in prior years. Outlays, therefore, flow in part from budget authority provided for the year in which the money is spent and in part from budget authority provided in prior years. The ratio of the outlays resulting from budget authority enacted in any year to the amount of that budget authority is referred to as the spendout rate for that year.

Outlays for the past year must agree with amounts reported in the Department of the Treasury's Annual Report unless OMB approves an exception.

20.7 What do I need to know about receipts, offsetting collections, and offsetting receipts?

(a) *Overview.*

The budget records money collected by Government agencies two different ways. Depending on the nature of the activity generating the collection, they are recorded as either–

- *receipts,* which are compared in total to outlays (net of offsetting collections and offsetting receipts) in calculating the surplus or deficit (see section (b)); or

- *offsetting collections* or *offsetting receipts,* which are deducted from gross outlays to produce net outlays (see section (c)).

The Government normally receives collections in the form of cash, and you normally record receipts, offsetting collections, or offsetting receipts equal to the amount received at the time of the collection. Normally the amount of cash collected appropriately measures the value of the transaction. In other cases, however, the cash collected does not accurately measure the cost of the transactions. In these cases, you record the cash-equivalent value of the transactions (see section 20.8).

The table below summarizes the distinction between receipts, offsetting collections, and offsetting receipts. We discuss them in more depth in the following sections.

For budget accounting purposes, user fees are not a separate category. They can be either receipts, offsetting collections, or offsetting receipts. However, user fees are often discussed in the budget as a separate category. We discuss them below in section (d).

We don't record some monies received by the Government in the budget totals at all, because they are not income. For example, the proceeds of borrowing are not income. We refer to the proceeds of borrowing and certain other transactions as *means of financing,* because they are a means of financing outlays when there is a deficit. We discuss means of financing in section (e).

SUMMARY EXPLANATION OF COLLECTIONS

Type of collection	What kind of transactions produce these collections?	How do these collections affect the surplus or deficit?	What are some examples?
Receipts	• The exercise of the Government's sovereign or governmental powers. • Gifts from the public.	The difference between receipts and outlays (net of offsetting collections and offsetting receipts) determines the surplus or deficit.	• Individual income taxes. • Corporation income taxes. • Social insurance and retirement receipts (on-budget and off-budget). • Excise taxes. • Estate and gift taxes. • Customs duties. • Fines and penalties.
Offsetting collections and offsetting receipts (see the following tables for categories)	• Business-like or market oriented activities with the public. • Intragovernmental transactions (collections of payments from one Government account to another).	Offsetting collections and offsetting receipts are deducted from gross outlays to produce net outlays. The difference between net outlays and receipts determines the surplus or deficit.	• Proceeds from the sale of postage stamps. • Fees charged for admittance to recreation areas. • Proceeds from the sale of Government owned land. • Rent collected by GSA from other agencies for office space.

(b) *Receipts.*

These are collections from the public that result primarily from the Government's exercise of its sovereign or governmental powers to compel payment. They consist mostly of individual and corporation income taxes and social insurance taxes, but also include excise taxes, compulsory user charges, customs duties, court fines, certain license fees, and deposits of earnings by the Federal Reserve System. They also include gifts and donations. Total receipts for the Federal Government include both on-budget and off-budget receipts.

A general law requires you to credit receipts to the general fund of the Treasury. However, other laws override this requirement for specified receipts, requiring separate accounting for them and designating them to be used for a specified purpose. We call this “earmarking” and establish a special fund or, if the law requires, a trust fund for that purpose. Earmarking receipts doesn’t affect their classification as receipts or offsetting receipts. Also, the authority to earmark receipts, by itself, does not provide budget authority. As a separate matter, the authorizing language will indicate whether the receipts are available for obligation and expenditure without further appropriation or are available only to the extent provided in annual appropriations acts.

Certain provisions of law require us to treat some receipts that are governmental in nature as offsetting collections or offsetting receipts. We designate these as “offsetting governmental collections” or “offsetting governmental receipts” (see below).

(c) *Offsetting collections and offsetting receipts.*

The budget records offsetting collections and offsetting receipts as offsets to budget authority and outlays, rather than as receipts. The difference between offsetting collections and offsetting receipts is the way we account for them under the laws that authorize them. The following two tables summarize the various categories of offsetting collections and offsetting receipts and their treatment in the budget. The text following the table discusses offsetting collections and offsetting receipts in more depth.

CATEGORIES OF OFFSETTING COLLECTIONS

Type of offsetting collection	What kind of transactions produce these collections?	How are they recorded in the budget?	What are some examples?
Offsetting collections from Federal sources	Collections of payments from one Government account to another.	In the program and financing schedule for the expenditure account as offsets to gross budget authority and outlays.	Rent collected by GSA from other agencies for office space.
Interest on U.S. securities	Investing balances in Federal securities as provided in law.	In the program and financing schedule for the expenditure account as offsets to gross budget authority and outlays.	Interest received on investments in Federal securities by a revolving fund.

Type of offsetting collection	What kind of transactions produce these collections?	How are they recorded in the budget?	What are some examples?
Interest on uninvested funds	Maintaining uninvested balances on which Treasury pays interest as provided in law.	In the program and financing schedule for the expenditure account as offsets to gross budget authority and outlays.	Interest paid to all credit program financing accounts.
Offsetting collections from non-Federal sources	Business-like or market oriented activities with the public.	In the program and financing schedule for the expenditure account as offsets to gross budget authority and outlays.	Proceeds from the sale of postage stamps.
Offsetting governmental collections	Collections that are governmental in nature but required by law to be treated as offsetting collections.	In the program and financing schedule for the expenditure account as offsets to gross budget authority and outlays.	Regulatory fees required by law to be treated as offsetting collections.

CATEGORIES OF OFFSETTING RECEIPTS

Type of offsetting receipt	What kind of transactions produce these receipts?	How are they recorded in the budget?	What are some examples?
Proprietary receipts from the public	Business-like or market oriented activities with the public.	In receipt accounts, the amounts of which are normally deducted from gross budget authority and outlays at the subfunction and agency levels.[1]	Fees charged for admittance to recreation areas.
Intragovernmental transactions	Collections of payments from one Government account to another.	In receipt accounts, the amounts of which are normally deducted from gross budget authority and outlays at the subfunction and agency levels.[1]	See examples under "Interfund receipts" and "Intrafund receipts."
• Interfund receipts	Collections of payments by Federal funds to trust funds and vice versa.	In addition to offsetting budget authority and outlays at the subfunction and agency level, interfund receipts credited to Federal funds offset the Federal funds	• Federal agency contributions to employee insurance and retirement trust funds.

Type of offsetting receipt	What kind of transactions produce these receipts?	How are they recorded in the budget?	What are some examples?
		totals for budget authority and outlays, and interfund receipts credited to trust funds offset the trust funds totals for budget authority and outlays.	• Trust fund earnings on investments in Treasury securities.
• Intrafund receipts	Collections of payments by Federal funds to other Federal funds and by trust funds to other trust funds.	In addition to offsetting budget authority and outlays at the subfunction and agency level, intra-fund receipts credited to Federal funds offset the Federal funds totals for budget authority and outlays, and intrafund receipts credited to trust funds offset the trust funds totals for budget authority and outlays.	• Special fund earnings on investments in Treasury securities. • Railroad retirement trust fund collections of Social Security equivalent payments from Social Security trust funds.
Offsetting governmental receipts	Collections that are governmental in nature but required by law to be treated as offsetting receipts.	They are recorded in receipt accounts, which are deducted from gross budget authority and outlays at the subfunction and agency levels.	Regulatory fees required by law to be treated as offsetting receipts.

[1] OMB designates most offsetting receipts as "distributed," meaning they offset budget authority and outlays at the subfunction and agency level (and, in turn, the Government-wide budget authority and outlay totals), but designates offsetting receipts from certain sources as "undistributed," meaning they offset the Government-wide budget authority and outlay totals only.

Offsetting collections and offsetting receipts result from either of two kinds of transactions:

1. *Business-like or market-oriented activities with the public.* If you sell a product or service to the public, you record the proceeds as offsetting collections or offsetting receipts. For example, the U.S. Postal Service records the proceeds from the sale of postage stamps as offsetting collections. You should treat the proceeds from the sale of assets *without* recourse (that is, the Federal government doesn't guarantee repayment of principal and interest in the event of default) as offsetting collections or offsetting receipts. In the budget, we deduct such offsetting collections and offsetting receipts from gross budget authority and outlays, rather than add them to governmental receipts. We do this so that the budget totals for receipts, budget authority, and outlays will represent only governmental, rather than market activity.

2. *Intragovernmental transactions.* You also record collections you receive from another Government account as offsetting collections or offsetting receipts. For example, the General Services Administration records payments it receives from other Government agencies for the rent of office space as offsetting collections in the Federal Buildings Fund. You may treat orders on hand from

another Federal account as offsetting collections, even though you haven't received the cash payment, if the paying account has recorded an obligation in that amount. (This does not apply to orders from non-Federal entities.) In the budget, we deduct intragovernmental offsetting collections and offsetting receipts from gross budget authority and outlays so that the budget totals measure the transactions of the Government with the public.

We use the term *offsetting collections* to refer to amounts credited to expenditure accounts and the term *offsetting receipts* to refer to amounts credited to receipt accounts. The way we record them depends on what the law requires. The following sections explain the differences in accounting for such collections.

(1) *Offsetting collections.* Some laws authorize agencies to credit collections directly to the account from which they will be spent and, usually, to be spent for the purpose of the account without further action by Congress. Most revolving funds operate with such authority. For example, a permanent law authorizes the Postal Service to use collections from the sale of stamps to finance its operations without a requirement for annual appropriations. The Postal Service records these collections in the Postal Service fund (a revolving fund) and records budget authority in an amount equal to the collections. As another example, GSA records the intragovernmental collections of the Federal Buildings Fund in the same manner as the Postal Service fund. In some cases, laws authorize agencies to charge fees and use them to defray a portion of costs mostly financed by appropriations from the general fund. In such cases, the agency records the offsetting collections and resulting budget authority in the general fund expenditure account. The authority to incur obligations against offsetting collections credited to an account is a form of budget authority (see section 20.4).

While most offsetting collections result from business-like activity or are collected from other Government accounts, some are governmental in nature but are required by law to be treated as offsetting. The budget labels these "offsetting governmental collections."

(2) *Offsetting receipts.* If the law doesn't authorize you to credit offsetting collections to an expenditure account, you must record them in a receipt account. Absent authority to earmark them, you credit them to the general fund receipt account designated by Treasury and OMB. If the law requires earmarking, you credit them to the special fund or trust fund receipt account established by Treasury and OMB. In the budget, we deduct offsetting receipts from budget authority and outlays in arriving at total budget authority and outlays. Unlike offsetting collections, offsetting receipts don't offset budget authority and outlays at the account level. The budget normally records the offset at the subfunction and agency levels. In a few cases we record the offset at the government-wide level to avoid distorting the budget authority and outlays totals for an agency or function.

We further subdivide offsetting receipts for purposes of budget accounting. When OMB, working with Treasury, establishes an account for the receipts from a particular source, we will designate each receipt account as one of these receipt types (see section 79.3):

- *Proprietary receipts from the public.* These offsetting receipts result from the business-type or market-oriented activities of the Government with the public. In the budget, we deduct most proprietary receipts from the budget authority and outlay totals of the agency that conducts the activity generating the receipt and of the subfunction to which we have assigned the activity. For example, we deduct fees for using National Parks from the totals for the Department of the Interior and the recreational resources subfunction. In a few cases, we don't offset proprietary receipts against any specific agency or function. We classify them as undistributed offsetting receipts and deduct them from Government-wide totals for budget authority and outlays. For example, the collections of rents and royalties from outer continental shelf lands are undistributed because the amounts are large and for the most part are not related to the spending of the agency that administers the transactions and the subfunction that records the administrative expenses.

- *Intragovernmental transactions.* These are collections of payments from expenditure accounts that are deposited into receipt accounts. In the budget, we deduct most intragovernmental transactions from the budget authority and outlays of the agency that conducts the activity generating the receipts and of the subfunction to which we have assigned the activity. In two cases, however, we present intragovernmental transactions in the budget as deductions in computing total budget authority and outlays for the Government as a whole rather than as offsets at the agency level – agencies' payments as employers into employee retirement trust funds and interest received by trust funds. The special treatment for these receipts is necessary because the amounts are large and would distort the agency totals, as measures of the agency's activities, if they were attributed to the agency. We further divide intragovernmental transactions into two subcategories:

  - Interfund receipts that are derived from payments between Federal and trust funds.

  - Intrafund receipts that are derived from payments within the same fund group (that is, within the Federal fund group or within the trust fund group).

- *Offsetting governmental receipts.* These are collections that are governmental in nature but that laws require us to treat as offsetting receipts.

(d) *User fees.*

User fee means a fee, charge, or assessment the Government levies on a class directly benefitting from, or subject to regulation by, a Government program or activity, to be utilized solely to support the program or activity. We record user fees as receipts, offsetting collections, or offsetting receipts using the criteria described above. The authorizing law must limit the payers of the fee to those benefitting from, or subject to regulation by, the program or activity. The group of payers may not be so broad as to consist of the general public or a broad segment of the public. The law must limit the charging agency's use of the fee to funding the specified programs or activities for which the agency may charge the fee, including directly associated agency functions. The fee may not be used for unrelated programs or activities or for the broad purposes of the agency or the Government as a whole.

User fees include:

- Collections from non-Federal sources for goods and services provided (for example, the proceeds from the sale of goods by defense commissaries, electricity by power marketing administrations, and stamps by the Postal Service; fees charged to enter national parks; and premiums charged for flood and health insurance);

- Voluntary payments to social insurance programs, such as Medicare Part B insurance premiums;

- Miscellaneous customs fees (for example, United States Customs Service merchandise processing fees);

- Many fees for permits, and regulatory and judicial services; and

- Specific taxes and duties on an exception basis.

User fees do not include:

- Collections from other Federal accounts;
- Collections deposited in general fund receipt accounts;
- Collections associated with credit programs;
- Realizations upon loans and investments;
- Interest, dividends, and other earnings;
- Payments to social insurance programs required by law;
- Excise taxes;
- Customs duties;
- Fines, penalties, and forfeitures;
- Cost-sharing contributions;
- Proceeds from asset sales (property, plant, and equipment);
- Proceeds from the sale of natural resources (such as timber, oil, and minerals);
- Outer Continental Shelf receipts;
- Spectrum auction proceeds; or
- Federal Reserve System deposits of earnings.

The Administration is reviewing the treatment of user fees, and additional guidance may be issued (see section 31.10.)

(e) *Means of financing.*

These are monies received or paid by the Government that are not counted in the budget totals as either income (receipts, offsetting collections, or offsetting receipts) or outgo (outlays). Borrowing and the repayment of debt are the primary means of financing. Others are listed below. These monies finance outlays when there is a deficit – that is, when outlays (net of offsetting collections and offsetting receipts) exceed receipts. When there is a surplus – that is, when receipts exceed outlays (net of offsetting collections and offsetting receipts) – they may be used, together with the surplus receipts, to retire debt. Under some circumstances, one means of financing will require financing by the others. For example, if the disbursements from credit financing accounts exceed their collections, the difference must be financed by receipts or the other means of financing. The means of financing other than borrowing and repayment of debt include:

- Net financing disbursements by direct loan and guaranteed loan financing accounts.
- Seigniorage (the profit from coining money) and profits on the sale of gold (a monetary asset).
- Certain exchanges of cash, such as deposits by the U.S. in the International Monetary Fund.
- Changes in Treasury's operating cash balance, deposit fund balances, and checks outstanding.
- Treasury debt buyback premiums and discounts (see section 20.12).

20.8 What do I need to know about cash-equivalent transactions?

Normally the amount of cash disbursed or collected is the appropriate measure of the value of the transaction, and you record outlays or collections equal to the cash that changes hands. In other cases, however, the cash disbursed or collected doesn't accurately measure the cost of the transactions. In these cases, you should record the cash-equivalent value of the transactions in the budget. The following are some examples of cash-equivalent transactions:

- *Federal employee salaries.* You record an outlay for the full amount of an employee's salary, even though the cash disbursement is net of Federal and state income taxes, retirement contributions, life and health insurance premiums, and other deductions. We record collections for the deductions that are payments to the Government.

- *Debt instruments.* When the Government receives or makes payments in the form of debt instruments (such as bonds, debentures, monetary credits, or notes) in lieu of cash, we record collections or outlays in the budget on a cash-equivalent basis. The Government can borrow from the public to raise cash and then outlay the cash proceeds to liquidate an obligation, or, if authorized in law, it may liquidate the obligation by issuing securities in lieu of the cash. The latter method combines two transactions into one – borrowing and an outlay. Combining these transactions into one does not change the nature of the transactions. Since the two methods of payment are equivalent, we require you to record the same amount of outlays for both cases. Similarly, when the Government accepts securities in lieu of cash from the public in payment of an obligation owed to the Government, we record collections. In one program, for example, a Government agency may choose whether to pay default claims against it in cash or by issuing debentures in lieu of cash; the agency records the same amount of outlays in either case. In turn, a recipient of these debentures may choose to pay the fees that it owes to the Government either in cash or by returning debentures of equivalent value that it holds. The agency records the same amount of collections in either case.

- *Lease-purchases.* We require you to record an outlay for the acquisition of physical assets through certain types of lease-purchase arrangements as though the transaction was an outright purchase. Lease-purchase transactions in which the Government assumes substantial risk are equivalent to the Government raising cash by borrowing from the public and purchasing the asset directly by disbursing the cash proceeds. So, we require you to report outlays over the period that the contractor constructs, manufactures, or purchases the asset that will be leased to the Government, not when the Government disburses cash to the developer for lease payments. Because the Government pays no cash up front to the nominal owner of the asset, the transaction creates a Government debt. In such cases, we treat the subsequent cash lease payments as the equivalent of interest outlays on that debt and principal repayments. (See Appendix B).

The scorekeeping effect of cash-equivalent transactions applies to budget authority, as well as to outlays and collections. You record the authority to incur obligations that will be liquidated through cash-equivalent payments as budget authority.

The use of cash-equivalents often results in an increase or decrease in Federal debt. In the previous example of the Government using debentures to pay claims, we record the issuance of a debenture as an increase in debt, and we record the Government's acceptance of a debenture for payment of fees as a reduction in debt. We also record an increase in debt as the means of financing the cash-equivalent outlays of lease-purchase arrangements in which the Government assumes substantial risk.

20.9 What do I need to know about discretionary spending, mandatory spending, and PAYGO?

(a) *Overview.*

The Budget Enforcement Act of 1990 (BEA) (see section 15.3) divides spending into two types:

1. *Discretionary spending* means the budget authority controlled by annual appropriations acts and the outlays that result from that budget authority. For example, the budget authority and outlays for the salaries and other operating expenses of Government agencies are usually controlled by annual appropriations acts and, therefore, are usually discretionary.

2. *Mandatory spending* means budget authority and outlays resulting from permanent laws. For example, permanent laws authorize payments for Medicare and Medicaid, unemployment insurance benefits, and farm price supports, so the budget authority and outlays for these programs are mandatory. In addition, the BEA defines several programs as “appropriated entitlements and mandatories” and classifies their spending as mandatory spending. In these cases, appropriations acts nominally provide the budget authority but don’t actually control it, because the authorizing law creates an entitlement. Also, the BEA specifically defines funding for the Food Stamp program as mandatory spending, even though annual appropriations acts provide funding for the program and the authorizing legislation doesn’t create an entitlement. Mandatory spending is the term commonly used for this kind of spending, although the BEA calls it “direct spending.”

The Joint Explanatory Statement of the Committee of Conference for the Balanced Budget Act of 1997 (Public Law 105-33), which most recently amended the BEA, listed all accounts under the Appropriations Committees' jurisdiction at the time. It classified accounts as discretionary by category or as appropriated entitlements and mandatories. The “scorekeepers” (House and Senate Budget Committees, CBO, and OMB) consult on the classification of new accounts and may reclassify an existing account. OMB indicates the BEA classification for an account when it is established in the MAX database (see section 81.3). While mandatory and discretionary classifications are used for measuring compliance with the BEA, they do not determine whether a program provides legal entitlement to a payment or benefit. You should address questions about BEA classifications and legal entitlements to your OMB representative.

The BEA applies one set of rules to discretionary spending and another to mandatory spending and receipts. The BEA applies the same rules to receipts as apply to mandatory spending, because receipts are generally controlled by permanent laws. The BEA refers to the rules that apply to mandatory receipts and spending as “pay-as-you-go” (PAYGO) requirements. The BEA itself sets the basic rules, but the Explanatory Statement referred to in the previous paragraph provided scorekeeping guidelines that the scorekeepers must use in interpreting the rules. The BEA authorizes the scorekeepers to revise the guidelines if all agree on the revision. Appendix A contains the current guidelines.

The BEA expires after fiscal year 2002. However, the Administration has proposed that it be extended and Congress has indicated that is likely to do so.

(b) *Discretionary spending caps.*

The BEA defined categories of discretionary spending that have varied from year to year. For 2001 they are highways, mass transit, and all other discretionary spending. The Interior appropriations act for 2001 added the conservation spending category to the existing categories beginning in 2002. This category is divided into six subcategories: Federal and State Land and Water Conservation Fund; State and Other Conservation;

Urban and Historic Preservation; Payments in Lieu of Taxes; Federal Deferred Maintenance; and Coastal Assistance. The BEA specifies caps through 2003 for the highways and mass transit categories and through 2006 for the conservation spending category, although the discretionary spending provisions of the BEA will expire after 2002 if not extended by law. In some earlier years there were separate categories for defense and for violent crime reduction. The BEA caps both budget authority and outlays for each fiscal year for the conservation spending and other discretionary categories, but it caps only outlays for each fiscal year for highways and mass transit.

The BEA requires OMB to adjust the caps upward for appropriations for emergencies – any appropriation designated as emergency spending by both the Congress and the President – and appropriations for certain specified purposes, such as continuing disability reviews by the Social Security Administration. Thus, these appropriations cannot trigger a sequestration. The BEA also requires OMB, in consultation with Congress, to adjust the caps for the effects of conceptual changes.

If the Congress and the President designate an appropriation as an emergency requirement, we score the appropriations act for the budget authority and estimated outlays when it is enacted, and we increase the discretionary caps by the same amounts in the next sequestration report. This is the case even if the language makes the appropriation contingent on the President's notifying Congress that he is making the appropriation available for emergency spending. (This is a change for contingent emergency appropriations. Prior to the 2001 budget we did not score budget authority or outlays until the President notified Congress. For the 2001 budget, we scored budget authority when the appropriation was enacted, but did not score outlays until the President notified Congress.)

The BEA requires special cap adjustments for the highways and mass transit categories to align the cap levels with highway receipts. It also requires a special cap adjustment for the conservation spending category. If appropriations in this category are less than the levels specified, the caps for the following year are adjusted upward by the amount of the shortfall. In addition, the BEA specifies minimum levels of spending for six subcategories of conservation spending. If appropriations for a subcategory for a fiscal year are less than the amount specified, the minimum level for the following year is adjusted upward by the amount of the shortfall. The subcategory levels are not caps. That is, appropriations in excess of a subcategory level would not necessarily trigger a sequestration. A sequestration would be triggered only if the aggregate of amounts appropriated for conservation spending exceeded the overall cap for the conservation spending category.

In general, Appropriations Committee actions are discretionary. The BEA requires that substantive changes to or restrictions on entitlement law or other mandatory spending law in appropriations laws (including changes in offsetting receipts or collections) be treated as changes in discretionary spending for the purposes of scoring those appropriations laws. However, in the subsequent budget, OMB may decide to reclassify such changes, especially in accounts that are generally mandatory, and make a compensating adjustment to the discretionary caps. This is sometimes referred to as "rebasing."

Where obligation limitations set in appropriations acts limit permanent budget authority, except trust fund accounts in the Department of Transportation, we redefine the budget authority for the account as discretionary in an amount equal to the limit. For Transportation trust funds, the budget authority remains mandatory, although the funds' outlays are discretionary.

If the amount of budget authority provided in appropriations acts for the year exceeds the cap on budget authority for a category, or if OMB estimates of the amount of outlays for the year resulting from all discretionary budget authority exceed the cap on outlays for a category, the BEA specifies a procedure, called sequestration, for reducing the spending in that category. The BEA requires the President to issue a sequestration order reducing most programs in the category by a uniform percentage. Special rules apply in reducing some programs, and the BEA exempts some programs from sequestration.

The BEA's sequestration rules cover supplemental appropriations enacted during the fiscal year. From the end of a session of Congress through the following June 30th, discretionary sequestrations take place whenever an appropriations act for the current fiscal year breaches a cap. Because a sequestration in the last quarter of a fiscal year might disproportionally disrupt Government operations, the BEA requires OMB to reduce the applicable cap for the next fiscal year, in lieu of a sequestration in the fourth quarter.

(c) *PAYGO requirements.*

The BEA doesn't cap mandatory spending. Instead, it requires all laws enacted through 2002 that affect mandatory spending or receipts to be enacted on a "pay-as-you-go" basis. That means that if a provision of law increases the deficit or decreases the surplus in the budget year or any of the four following years, another provision of law (in the same or another law) must offset the increase with a reduction in spending or increase in receipts in each affected year. A provision that increases benefit payments, for example, would have to be offset by a provision reducing other mandatory spending or increasing receipts. Otherwise, the BEA requires the President to issue a sequestration order at the end of the session of Congress in the fiscal year in which the deficit is increased. (Note: Although the BEA requires estimates of the effects of legislation for the budget year and the four following years, OMB requires budget policy estimates for 9 years beyond the budget year (see section 30.2.)

The BEA sequestration procedures require a uniform reduction of mandatory spending programs that are neither exempt nor subject to special rules. The BEA exempts Social Security, interest on the public debt, Federal employee retirement, Medicaid, most means-tested entitlements, deposit insurance, other prior legal obligations, and most unemployment benefits from sequestration. A special rule limits the sequester of Medicare spending to no more than 4 percent, and special rules for some other programs limit the size of a sequestration for those programs. As a result of exemptions and special rules, only about 3 percent of all mandatory spending is subject to sequestration, including the maximum amounts allowed under the special rules.

The PAYGO rules don't apply to increases in mandatory spending or decreases in receipts that don't result from new laws. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the population of eligible beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws. Likewise, tax receipts decrease when the profits of private businesses decline as the result of economic conditions.

If both the Congress and the President designate a provision of mandatory spending or receipts legislation as an emergency requirement, we don't score the effect of the provision on the surplus or deficit.

(d) *OMB and CBO estimates.*

The BEA requires OMB, using the methods prescribed by the BEA, to make the estimates and calculations that determine whether there is to be a sequestration and report them to the President and Congress. The President's sequestration order may not change any of the particulars of the OMB report. The BEA requires the Congressional Budget Office (CBO) to make the same estimates and calculations, and requires OMB to explain any differences between the OMB and CBO estimates. Congress uses the CBO estimates for enforcing constraints during the congressional budget process.

(e) *Reporting requirements.*

The BEA requires OMB to issue five different kinds of reports to the President and the Congress, which the following table describes. The BEA requires CBO to issue like reports, with its estimates, 5 days earlier than the OMB reports.

BEA REPORTS

What OMB reports...	When...
Preview report. This report discusses the status of discretionary and PAYGO sequestration based on current law. It also explains OMB adjustments to the discretionary caps, under the BEA's adjustment provisions, and publishes the revised caps. By custom, OMB publishes its report as a chapter of the *Analytical Perspectives* volume of the budget.	With the President's budget
7-day after reports. As part of enforcing the discretionary spending caps, OMB must issue a report for each appropriation act (including a supplemental appropriations act) estimating the amount of new budget authority and outlays provided by the act for the current year and budget year. As part of enforcing the PAYGO rules, OMB must also issue a report for each authorizing act that changes receipts or outlays.	7 days after enactment of a bill
Update report. This report revises the preview report estimates to reflect the effects of newly enacted discretionary and PAYGO legislation.	August 20
Final report. This report also revises the preview report estimates, this time to reflect the effects of legislation enacted through the end of the session of Congress. The estimates in this report determine whether the President must issue a sequestration order.	15 days after the end of a session of Congress (usually in the fall of each year)
Within-session report. The BEA requires OMB to report if an appropriation for a fiscal year in progress is enacted before July 1 that breaches a cap. The report triggers a sequestration order. (If an appropriation is enacted after July 1 that breaches a cap, the BEA requires OMB to reduce the cap for the following year.)	Between the end of a session of Congress and July 1

20.10 What do I need to know about refunds?

You might think that you should record refunds received as collections and refunds paid as outlays, but that isn't always the case. The following table explains how to record refunds *received.* (We cover refunds paid after the table.)

If you...	And the appropriation against which the obligation was incurred...	You...
(1) receive a refund of funds that were obligated and outlayed in that year	remains available (usually the case)	reduce the total amount of obligations and outlays recorded for the year in the budget schedules.

If you...	And the appropriation against which the obligation was incurred...	You...
(2) receive a refund of funds that were obligated in a previous year	remains available for new obligations	record the refund as an offsetting collection, increasing spending authority from offsetting collections.
(3) receive a refund of funds that were obligated in a previous year	has expired but is not yet canceled	record the refund as an offsetting collection and as a portion of cash collections credited to expired accounts (line 8896 of the P&F schedule). These offsetting collections are not reported as spending authority from offsetting collections (part of gross budget authority), and the amount on line 8896 reduces the offset applied to gross budget authority.
(4) receive a refund of funds that were obligated in a previous year	has been canceled	credit the refund to miscellaneous receipts of the Treasury.

Record refunds *paid* as follows:

- Record refunds paid by an expenditure account as an obligation and an outlay of the account.
- Record refunds of receipts that result from overpayments (such as income taxes withheld in excess of a taxpayer's income tax liability) as reductions of receipts, rather than as outlays. This does not include payments to a taxpayer for credits (such as an earned income tax credit) that exceed the taxpayer's income tax liability. Record these as outlays, not as refunds.

20.11 What do I need to know about fund types and associated accounts?

(a) *Overview.*

Agency activities are financed through general funds, special funds, and revolving funds (public enterprise revolving funds and intragovernmental revolving funds), which constitute the Federal funds group, and trust funds and trust revolving funds, which constitute the trust funds group. In a few cases, agencies account for amounts that are not Government funds in deposit funds. The following table summarizes the characteristics of these funds. The text following the table discusses the types of funds in more depth.

CHARACTERISTICS OF FUND TYPES AND THEIR ACCOUNTS

Fund Type/Account	What is the purpose of the account?	Are receipt accounts and expenditure accounts linked?	Are these funds included in the budget?
Federal funds:			
General fund receipt accounts	Record unearmarked receipts.	No.	Yes.
General fund expenditure accounts	Record budget authority, obligations, and outlays of general fund receipts and borrowing.	No, general fund appropriations draw from general fund receipts collectively.	Yes.
Special fund receipt accounts	Record receipts earmarked by law for a specific purpose.	Yes.	Yes.
Special fund expenditure accounts	Record budget authority, obligations, and outlays of special fund receipts.	Yes.	Yes.
Public enterprise revolving funds	Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and outlays for a business-like activity conducted primarily with the public.	Not applicable. Collections are credited to the expenditure account.	Yes.[1]
Intragovernmental revolving funds	Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and outlays for a business-like activity conducted primarily within the Government.	Not applicable. Collections credited to the expenditure account.	Yes.
Trust funds:			
Trust fund receipt accounts	Record receipts earmarked by law for a specific purpose (other than a business-like activity).	Yes.	Yes.[1]
Trust fund expenditure accounts	Record budget authority, obligations, and outlays of trust fund receipts.	Yes.	Yes.[1]

Fund Type/Account	What is the purpose of the account?	Are receipt accounts and expenditure accounts linked?	Are these funds included in the budget?
Trust revolving funds	Record offsetting collections earmarked by law for a specific purpose and associated budget authority, obligations, and outlays for a business-like activity conducted primarily with the public.	Not applicable. Collections credited to the expenditure account.	Yes.
Deposit funds	Record deposits and disbursements of monies not owned by the Government.	Not applicable. Deposits and disbursements are recorded in the same account.	No.

[1] By law, the budget authority and the outlays (net of offsetting collections) of the Postal Service Fund (a revolving fund), and the receipts, budget authority, and outlays of the two social security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) are excluded from the budget totals. The budget documents present these amounts as "off-budget" and adds them to the budget totals to show totals for the Federal Government (sometimes called unified budget totals).

(b) *Federal funds.*

Federal funds comprise several types of accounts or funds. A *general fund receipt account* records receipts not earmarked by law for a specific purpose, such as individual income tax receipts. A *general fund expenditure account* records appropriations from the general fund and the associated transactions, such as obligations and outlays. General fund appropriations draw from general fund receipts collectively and, therefore, are not specifically linked to receipt accounts.

The Federal funds group also includes *special funds* and *revolving funds*, both of which earmark collections for spending on specific purposes. We establish a special fund where the law requires us to earmark collections from a specified source to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations (making it a revolving fund) nor designates it as a trust fund. For example, a law established the Land and water conservation fund, earmarking a portion of rents and royalties from Outer Continental Shelf lands and other receipts to be used for land acquisition, conservation, and recreation programs. The receipts earmarked to a fund are recorded in one or more *special fund receipt accounts.* More than one receipt account may be necessary to distinguish different types of receipts (governmental, proprietary, etc.) and receipts from significantly different types of transactions (registration fees vs. fines and penalties, for example). The fund's appropriations and associated transactions are recorded in a *special fund expenditure* account. Most funds have only one expenditure account, even if there are multiple receipt accounts. However, a large fund, especially one with appropriations to more than one agency (such as the Land and water conservation fund), may have more than one expenditure account. The majority of special fund collections are derived from the Government's power to impose taxes, fines, and other compulsory payments, and they must be appropriated before they can be obligated and spent.

Revolving funds conduct continuing cycles of business-like activity. They charge for the sale of products or services and use the proceeds to finance their spending. Instead of recording the collections in receipt accounts (as offsetting receipts), the budget records the collections and the outlays of revolving funds in the same account. The laws that establish revolving funds authorize the collections to be obligated and outlayed

for the purposes of the fund without further appropriation. The law of supply and demand is expected to regulate such funds. However, in some cases, Congress enacts obligation limitations on the funds in appropriations acts as a way of controlling their expenditures (for example, a limitation on administrative expenses). There are two classes of revolving funds. *Public enterprise funds,* such as the Postal Service Fund, conduct business-like operations mainly with the public. *Intragovernmental funds,* such as the Federal Buildings Fund, conduct business-like operations mainly within and between Government agencies.
(c) *Trust funds.*

Trust funds account for the receipt and expenditure of monies by the Government for carrying out specific purposes and programs in accordance with the terms of a statute that designates the fund as a trust fund (such as the Highway Trust Fund) or for carrying out the stipulations of a trust agreement where the Nation is the beneficiary (such as any of several trust funds for gifts and donations for specific purposes). Like special funds and revolving funds, trust funds earmark collections for spending on specific purposes. Many of the larger trust funds finance social insurance payments for individuals, such as Social Security, Medicare, and unemployment compensation. Other major trust funds finance military and Federal civilian employees' retirement, highway and mass transit construction, and airport and airway development.

A trust fund normally consists of one or more receipt accounts to record receipts and an expenditure account to record the appropriation of the receipts and associated transactions. Some trust funds have multiple receipt accounts for the same reasons that special funds have them. Also, like special funds, large trust funds (such as the Highway Trust Fund) may have multiple expenditure accounts. A few trust funds, such as the Veterans Special Life Insurance fund, are established by law as revolving funds. These funds operate the same way as revolving funds in the Federal funds group, and we call them *trust revolving funds.* They conduct a cycle of business-type operations. The collections are credited to the expenditure account as offsetting collections and their outlays are displayed net of collections in a single expenditure account.

The Federal budget meaning of the term “trust,” as applied to trust fund accounts, differs significantly from its private sector usage. In the private sector, the beneficiary of a trust usually owns the trust's assets, which are managed by a trustee who must follow the stipulations of the trust. In contrast, the Federal Government owns the assets of most Federal trust funds, and it can raise or lower future trust fund collections and payments, or change the purposes for which the collections are used, by changing existing laws. There is no substantive difference between a trust fund and a special fund or between a trust revolving fund and a public enterprise revolving fund. Whether a particular fund is designated in law as a trust fund is, in many cases, arbitrary. For example, the National Service Life Insurance Fund is a trust fund, but the Servicemen's Group Life Insurance Fund is a Federal fund, even though both are financed by earmarked fees paid by veterans and both provide life insurance payments to veterans’ beneficiaries. The Government does act as a true trustee for some funds. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in deposit funds (see the next section).

(d) *Deposit funds.*

You use deposit funds to account for monies held temporarily by the Government until ownership is determined (such as earnest money paid by bidders for mineral leases) or held by the Government as an agent for others (such as State and local income taxes withheld from Federal employees’ salaries and not yet paid to the State or local government). We exclude deposit fund transactions, as such, from the budget totals because the funds are not owned by the Government. Therefore, the budget records transactions between deposit funds and budgetary accounts as transactions with the public. For example, when the mineral leasing process has been completed, the winning bidder’s earnest money is transferred from the deposit fund to the appropriate receipt account and the budget records a receipt. Similarly, outlays are recorded in an agency's salaries and expense account when a Federal employee is paid, even though some of the amount is transferred to a deposit fund for State and local income taxes withheld and paid later to the State and local government. Deposits and associated disbursements are recorded in the same account.

You may not use deposit funds to hold monies if you know they belong to the Government but have not determined the specific receipt account to credit them to. The Treasury Department provides *clearing accounts* to be used for that purpose.

20.12 How do I record investment in securities and disinvestment?

(a) *Overview.*

You may only invest funds in securities if you are authorized to do so by law. Authorizing laws usually specify investment in Federal securities; they rarely authorize investment in non-Federal securities (see the definitions below). The budget treatment of investment in non-Federal securities, described in subsection (c), differs from that of Federal securities, described in subsection (d).

The guidance in this section regarding purchase premiums and discounts doesn't apply to the Treasury Department's purchases of marketable Treasury securities from the public prior to their maturity (often referred to as "debt buyback"). The budget records buyback premiums and discounts as means of financing a surplus or deficit, rather than as outlays or offsetting collections or receipts. The buyback premium or discount is the difference between the purchase price of a security and its book value. The book value can be expected to differ from the par value (face value) of the security. (See Chapter 24, "Budget System and Concepts and Glossary," pages 457-58, of the *Analytical Perspectives* volume of the 2001 budget for an explanation of the reason for this treatment.)

(b) *Special terms for investment defined.*

(1) *Accrued interest purchase* means payments to the seller of a security, when a security is purchased, for interest that has accrued to the seller but that will be paid to the purchaser.

(2) *Amortization* means to record a portion of any purchase discount or purchase premium in each reporting period over the life of a security, or it means the amount so recorded.

(3) *Book value* means the *par value* of a security minus the amount of any unamortized discounts or plus the amount of any unamortized premiums.

(4) *Earnings* refers collectively to some or all of these components: interest, accrued interest purchases, the amortization of purchase premiums and discounts, and sales gains and losses.

(5) *Federal securities* consist of securities issued by Federal agencies, including nonmarketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal agencies. (Compare this to *non-federal securities*.)

(6) *Interest* means the nominal interest or stated amount of interest received on a security.

(7) *Marketable Treasury securities*, including Treasury bills, notes, and bonds, are types of securities that Treasury initially issues by sale to the marketplace and that can be bought and sold on securities exchange markets.

(8) *Market-based Treasury securities* are special series debt securities that the U.S. Treasury issues to Federal entities without statutorily determined interest rates. These securities are not offered to the market place and cannot be bought and sold on exchange markets, but Treasury sets their terms (prices and interest rates) to mirror the terms of marketable Treasury securities. Because they mirror market terms, the purchase price may reflect a premium or discount.

(9) *Net value*, for the purpose of budget schedules, means the par value of a security reduced by the amount of any purchase discount on a cash basis. This definition differs from the definition of "Treasury securities, net" as reported in balance sheets under section 86.2 (see *Differences between amounts recorded in budget schedules and financial statements* in subsection (d)).

(10) *Nonmarketable par value Treasury securities* are special series debt securities that the U.S. Treasury issues to federal entities at par value. These securities are not offered to the market place and cannot be bought and sold on exchange markets. As required by the authorizing laws, Treasury sets the interest rate on such securities taking into consideration current market yields on outstanding marketable Treasury securities of specified maturity. Because these securities are sold at par value, there is no purchase premium or discount.

(11) *Non-Federal securities* consist of securities issued by a non-Federal entity, including State and local governments, private corporations, and Government-sponsored enterprises, regardless of whether the securities are federally guaranteed.

(12) *Par value* is the amount of principal a security pays at maturity. It is the amount printed on the face of a Treasury security, which is why it is sometimes referred to as the face value, or the equivalent book-entry amount.

(13) *Purchase discount* means the excess of a security's par value over its purchase price.

(14) *Purchase premium* means the excess of a security's purchase price over its par value.

(15) *Sales gain* means the excess of the sales price over the purchase price of the security.

(16) *Sales loss* means the excess of the purchase price over the sales price at the time of the sale.

(c) *Non-Federal securities*

The budget treats an investment in a non-Federal security (equity or debt security) as a purchase of an asset, recording an obligation and an outlay in an amount equal to the purchase price in the year of the purchase. You cannot incur such an obligation unless budget authority (or unobligated balances of budget authority) is available for the purpose. If a law clearly requires such investment without requiring further action by Congress, we will generally construe that law as providing budget authority for the purpose.

Investment in non-Federal securities consumes budgetary resources, unlike investment in Federal securities. The purchase of non-Federal securities using unobligated balances reduces the balances. The balance doesn't include the value of non-Federal securities because the funds have been spent for the purchase of the assets.

When such securities are sold or redeemed at maturity, the budget records the proceeds as offsetting collections or receipts, which adds to the balances of the account.

You record interest and other earnings on such investments as described for earnings on Federal securities in the next subsection, except that you must account for such earnings separately from earnings on investments in Federal securities. You record earnings credited to a general fund appropriation account or revolving fund account as offsetting collections on line 8840, Non-Federal sources, of the program and financing statement. You record earnings credited to a special or trust fund account as proprietary receipts in a separate receipt account for this purpose.

(d) *Federal securities.*

Because Federal securities are the equivalent of cash for budget purposes, we treat investment in them as a change in the mix of assets held, rather than as a purchase of assets. The following bullets describe the treatment in general terms, and the following table explains how to record specific transactions in the budget. The purchase, sale, or redemption of an asset, or the earnings in a year, may combine several transactions.

- *Principal.* The investment reduces the cash balances by the purchase price and increases balances of Federal securities. How you report balances of Federal securities depends on which budget schedule you are working with.

  - *Unavailable collections schedule (schedule N).* This schedules doesn't divide the unavailable balances into cash and Federal securities. It presents the balances as a single amount (unless the balances are divided for other reasons). The amount equals the uninvested cash balance, plus the *net value* (as defined in subsection (b)) of Federal securities held. MAX generates schedule N automatically. (See section 86.6.)

  - *Program and financing schedule (schedule P).* This schedule doesn't divide balances (unobligated or obligated balances) into cash and Federal securities. It presents the balances as a single amount (unless the balances are divided for other reasons). The amount equals the uninvested cash balance, plus the *net value* (as defined in subsection (b)) of Federal securities held. Enter the end of year unobligated and obligated balances in MAX as you would normally. In addition, you must enter memorandum entries for total investments at *par value* at the start and end of each year. (See section 82.7 for MAX.)

  - *Status of funds schedule (schedule J).* We require this schedule for certain accounts listed by agency in section 86.5. For unexpended balances at the start of the year and at the end of the year, the schedule presents separate amounts for the cash balance, the balance of Federal securities at *par value,* and unrealized purchase discounts. The MAX database generates schedule J automatically, except that it does not divide balances into amounts for cash, Federal securities at par value, or unrealized purchase discounts. You must enter these amounts. (See section 86.5.)

- *Earnings.* You record all earnings as net interest. Some components may be positive (such as interest and realized purchase discounts) and others negative (such as an accrued interest purchases and purchase premiums). Record each component as an increase or decrease in the net interest for the year in which the transaction occurs. For investments from a general fund appropriation account or revolving fund account (including a trust revolving fund account), record interest as an offsetting collection credited to the account (line 8820 Interest on Federal securities) of the P&F schedule. For investments from a special or trust fund account (non-revolving), record interest in a receipt account for interest (usually one ending with the suffix .20). The Status of Funds schedule, if one is required for the account, records earnings on lines that correspond to the entries for offsetting collections in the P&F schedule or the receipts credited to receipt accounts, as appropriate.

We may specify an alternative treatment for certain accounts where these rules may result in significant distortions of amounts presented in the budget.

The following table lists the transactions associated with investments in Federal securities in the first column and explains how to record them in the budget schedules in columns 2 through 4. Please note these features of the table:

- The second column contains instructions for recording transactions in the P&F schedule. The instructions for recording principal transactions apply to all accounts investing or disinvesting in securities. The instructions for recording earnings apply only to investments from general fund appropriation accounts or revolving fund accounts (including trust revolving funds).

- The third column contains instructions for recording earnings in special and trust fund (except trust revolving fund) receipt accounts for interest.

- The fourth column contains instructions for recording transactions – both principal transactions and earnings transactions – in the Status of Funds schedule required for certain accounts listed in section 86.6.

- Although the instructions on balances specify end of year balances, they apply equally to start of year balances, because end of year balances are carried forward and become the start of year balances for the next year. MAX automatically generates the start of year balances in the Unavailable Collections schedule (MAX schedule N), the P&F schedule (MAX schedule P), and the Status of Funds schedule (MAX schedule J), except that you must break out the amounts for cash, Federal securities at par value, and unrealized purchase discounts in the Status of Funds schedule.

- A negative sign "(-)" at the end of a stub label means that you normally report negative amounts on this line. A direction to increase the amount reported means you should report a larger negative amount, and a direction to decrease the amount means you should report a smaller negative amount. The absence of a sign means you normally report positive amounts on this line. It is possible for negative earnings (such as a sales loss) for an account for a year to produce a positive amount for offsetting collections, or a negative amount for receipts, if the amounts reported for other transactions during the year are not sufficient to offset the negative earnings. (No signs appear in the stub labels printed in the budget.)

If the transaction is...	In the P&F schedule...	Or, in the special or trust fund receipt account for interest (usually suffix .20) ...	And, in the Status of Funds schedule...
(1) *Principal, upon investment.*	Increase the amount reported on line 9202, "Total investments, end of year; Federal securities: Par value," by the par value in the purchase year.	Not applicable.	(a) Decrease the amount reported on line 0700, "Uninvested balance," by the purchase price in the purchase year. (b) Increase the amount reported on line 0701, "Federal securities: Par value," by the par value in the purchase year.
(2) *Purchase discount* – the excess of a security's par value over the purchase price.	Not applicable.	Not applicable.	(a) In the year of the purchase, increase the amount reported on line 0702, "Unamortized purchase discounts (-)," by the discount amount. (b) When the security matures: (1) Decrease the amount reported on line 0702, "Purchase discounts (-)," by the amount of the purchase discount; and (2) increase the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of the purchase discount.
(3) *Purchase premium* – the excess of a security's purchase price over its par value.	Decrease the amount reported on line 8820, "Interest on Federal securities (-)," by the premium amount in the year of the purchase.	Decrease the amount reported as interest by the premium amount in the year of the purchase.	Decrease the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of the purchase premium in the year of the purchase.
(4) *Accrued interest purchase* – a payment to the seller of a security, when a security is purchased, for interest that has accrued to the	Decrease the amount reported on line 8820, "Interest on Federal securities (-)," by the amount of the accrued interest purchase in the	Decrease the amount reported as interest by the amount of the accrued interest purchase in the year of the purchase.	Decrease the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of the accrued

If the transaction is...	In the P&F schedule...	Or, in the special or trust fund receipt account for interest (usually suffix .20) ...	And, in the Status of Funds schedule...
seller but that will be paid to the purchaser.	year of purchase.		interest purchase in the year of purchase.
(5) *Interest* – the nominal or stated amount of interest received.	Increase the amount reported on line 8820 "Interest on Federal securities (-)," by the amount of interest received each year.	Increase the amount reported for interest by the amount of interest received each year.	Increase the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of interest received each year.
(6) *Principal, upon redemption at maturity*.	Decrease the amount reported on line 9202, "Total investments, end of year; Federal securities: Par value," by the par value in the year of redemption.	Not applicable.	(a) Increase the amount reported on line 0700, "Uninvested balance," by the par value in the year of redemption. (b) Decrease the amount reported on line 0701, "Federal securities: Par value" by the par value in the year of redemption.
(7) *Principal, upon sale before maturity*.	Decrease the amount reported on line 9202, "Total investments, end of year; Federal securities: Par value," by the par value in the year of sale.	Not applicable.	In the year of the sale: (a) Increase the amount reported on line 0700, "Uninvested balance" by the sales price. (b) Decrease the amount reported on line 0701, "Federal securities: Par value" by the par value. (c) Decrease the amount reported on line 0702, "Purchase discounts (-)," if the security was purchased at a discount.
(8) *Sales gain* – the excess of the sales price over the purchase price.	Increase the amount reported on line 8820, "Interest on Federal securities (-)," by the amount of the gain in the year of the sale.	Increase the amount reported for interest by the amount of the gain in the year of the sale.	Increase the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of the gain in the year of the sale.

If the transaction is...	In the P&F schedule...	Or, in the special or trust fund receipt account for interest (usually suffix .20) ...	And, in the Status of Funds schedule...
(9) *Sales loss* – the excess of the purchase price over the sales price.	Decrease the amount reported on line 8820 "Interest on Federal securities (-)," by the amount of the loss in the year of the sale.	Decrease the amount reported for interest by the amount of the loss in the year of the sale.	Decrease the amount reported on the line corresponding to the offsetting collection or receipt, as appropriate, by the amount of the loss in the year of the sale.

Differences between amounts recorded in budget schedules and financial statements.

- *Purchase discounts.* Budget schedules record them when the security matures. In most cases, financial statements amortize them over the term of the security.

- *Purchase premiums.* Budget schedules record them at purchase. In most cases, financial statements amortize them over the term of the security.

- *Net value.* For budget schedules, the term means the par value of a security minus the amount of any purchase discount on a cash basis. Don't confuse it with the term *Treasury securities, net* used in financial statements, which means the par value of a security minus the amount of any unamortized discounts or plus the amount of any unamortized premiums.

- *Signs.* Earnings reported as offsetting collections in the program and financing schedule carry the opposite sign from income reported in financial statements. In the program and financing statement, increases in income are reported as negative amounts and decreases are reported as positive amounts.

Differences between amounts recorded by Treasury and the budget. You will encounter differences between Treasury records and the budget if a law authorizes you to invest special or trust funds in Federal securities but requires appropriations acts to determine the amount of receipts available to incur obligations. Treasury treats the authority to invest the receipts as an appropriation, recording the receipts as appropriated in the year received and subsequently as unexpended balances of appropriations (combined unobligated and obligated balances). Since such appropriations do not provide budget authority, do not record budget authority in the program and financing schedule. The MAX database will report these amounts, along with the other amounts reported as unavailable collections, in the special schedule required under section 86.7 (without separate identification for the invested portion of the balances).